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C O N F I D E N T I A L SECTION 01 OF 04 SANTO DOMINGO 005024

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SUBJECT: DOMINICAN POLITICS: SUGAR, IPR, TAXES AND TRADE -- TROUBLE FOR FREE TRADERS

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Classified By: EcoPol counselor Michael Meigs. Reason: 1.4 (a) and (d)

**1.** (U) Following is the first in our series on the politics of the new Dominican administration of Leonel Fernandez.

(U) Dominican Politics #1: Sugar, IPR, Taxes and Trade )  
Trouble for Free Traders

(U) Powerful opponents of free trade are mounting a campaign to discredit the agreement with the United States and the Central Americans, manipulating Congress and hoping the USG will walk away from the deal. Leonel Fernandez needs to stop talking generalities and make a commitment to free trade.

(U) The enormously wealthy and influential sugar interests in the Dominican Republic have pursued a relentless public campaign over the past month against the country's free trade agreement (FTA) with the United States and Central America. At a rhythm of two or three per week, full-page ads of breath-taking vehemence have appeared, simultaneously, in all the country's dailies. Some have appeared as communiqués of the "Agricultural Association" of two dozen agricultural interest groups. Others were re-publications of anti-trade opinion pieces from elsewhere in the press. Still others have been ad hominem attacks against the Dominican negotiators, the U.S. ambassador, and those few editorialists who have written in favor of the FTA.

(SBU) The arguments are the familiar rants of protectionism: the FTA will completely eliminate the agriculture of the country, now more than 20 percent of GDP. The United States unfairly subsidizes its farmers and exports. The country will lose autonomy in food protection. Millions of poor farmers will lose their livelihoods. The Dominican negotiators failed to consider the needs of agriculture. The FTA must be renegotiated, and the U.S. elections will present the opportunity to do so.

Where is Leonel?

(U) In his first public event, the day after his inauguration, President Fernandez endorsed the FTA to the press, in the presence of U.S. Secretary of Agriculture Ann Veneman. He reminded journalists, "The Dominican Republic cannot afford to lose access to the U.S. market, and for that reason the agreement was concluded, with no time limits to free trade." The Caribbean Basin Initiative "is what has permitted the development of our free zone industries." He declared that the agreement would advance regional integration and benefit the country: "We are greatly confident that the future development of the Dominican Republic may rest in the ability to take advantage of the opportunities presented to us."

(SBU) Fernandez has long espoused just this sort of soft globalism, talking about the inevitability of trade pressures and about the need to seek competitive advantage. Unfortunately, he has, in our view, so far failed in his first three weeks in power to appoint or empower free traders in his administration.

(SBU) Foreign Minister Carlos Morales Troncoso is straight out of 40 years of managing and owning Central Romana, the country's leading sugar complex -- although, to be fair, the Minister told the Ambassador on August 24 that he was "setting aside" his concerns about sugar and trade. Trade negotiating authority has moved back to the Foreign Ministry, to Juan Giuliani, not known to favor U.S. trade initiatives for the hemisphere. Minister of Commerce and Industry Francisco Javier Garcia manifested no particular interest in the FTA during the Ambassador's courtesy call on August 23, dwelling instead on domestic concerns. Agriculture Minister Anibal Romero says that agricultural complaints must be heard. Though certainly peripheral to these issues, even Culture Minister Rafael Lantigua is close to the sugar interests.

(C) Uncertainty about Fernandez's trade policy is such that last week USTR picked up rumors that Fernandez might reappoint as WTO ambassador Federico Cuello, the determined anti-U.S. ideologist who has regularly sniped at the FTA effort in weekly newspaper columns over the last year. Secretary of the Presidency Temistocles Montas dismissed the

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notion in conversation with the Charge on September 3 (we understand Cuello is likely to go to Brussels, where he can do little to harm trade). Montas offered no speculation about a possible nominee for Geneva.

Congress -- A Field for Provocation

(U) The highest-profile political show in town has been congressional consideration of the tax package crafted by Fernandez's advisors and delivered on July 11, at arm's length, by President Mejia. All political actors understand that early implementation of increased taxes is a prior condition for renewing IMF negotiations for a badly needed standby program. House Finance Committee president Rep. Marino Collantes conducted more than a month of hearings, debates, and discussions on the measure, right until expiration of the session on Sunday, August 15. The House revived the legislation as soon as it reconvened in new session after the inauguration.

(SBU) Also expiring on the 15th and revived on the 17th was an ugly little measure advocated by pharmaceutical manufacturers. In direct breach of commitments in the WTO and the FTA, a piece of draft legislation would reduce penalties on infringements of patents and trademarks to fines of derisory amount, at the same time eliminating jail terms. It would also stipulate that petitions for compulsory licensing of patents would be considered approved in the absence of administrative reply within 120 days. In the week before the inauguration the DCM and EcoPol Counselor strongly cautioned House President Pacheco about both aspects. Pacheco, generally a reliable interlocutor, assured us he would see that the measure was held in committee for lengthy discussion.

(SBU) The House passed a much-reduced tax package on August 26, but with a sharp protectionist sting in its tail. In paragraph IX of the approved version a new measure would impose a 25 percent tax on soft drinks and refreshments manufactured with fructose syrups. This text had gone into the hopper late in the closing deliberations. On August 27 House President Pacheco expressed dismay to us, professing that he'd not understood it to constitute trade protectionism.

(SBU) The tax package then went to the Dominican Senate, dominated by Meja's PRD with 28 of 32 senators. On Monday, August 30 EcoPol counselor explained the consequences of the anti-trade tactic to PRD president Vicente Sanchez Baret and, separately, to PRD Trade Committee president Sen. Alejandro Santos, also of the PRD.

(C) On the same day the Charge called on Senate President Andres Bautista, who had apparently been ducking calls from the U.S. Agricultural Attaché for three days. Sen. Bautista was flanked by a committee of senators, including Santos. The Charge warned them of immediate, wide-reaching consequences for the FTA if an anti-fructose tax became law. Bautista professed concern but commented that any modifications would necessarily send the package back to the House and further delays, prejudicial for prospects with the IMF. Perhaps, he speculated, Congress could approve the package and then pass a separate measure to repeal the anti-fructose tax. The Charge strongly warned senators against the tactic, advising them that the anti-trade paragraph had already greatly damaged the credibility of the country with the USG, the U.S. Congress, and supporters of free trade.

(U) When the Senate met on August 31, it referred the tax package to a special committee of 12 senators -- far larger than the 5-senator committee previously planned, according to Senator Santos. That committee met formally on September 2; during their session the Embassy delivered individually to each of the 12 senators the Embassy translation of a letter sent on August 31 from Deputy USTR Algier to Dominican ambassador Giuliani Cury.

(C) The USTR letter expressing deep concern about the tax measure drew in part from elements proposed by Embassy Santo Domingo. Shortly after the letter was delivered to the Dominican embassy, their DCM in Washington Judith Marcano (protect) telephoned Santo Domingo trade contacts asking for help, saying that Amb. Giuliani was declining to deal with USTR, with the USTR letter, or with any of the approaches from U.S. interests.

Senate Debate

(U) The Senate is sharply divided, according to the press,

with Senate vice president Cesar Matias strongest for elimination of the anti-trade measure. Matias stated during debate that since the administration is responsible for the tax package, Fernandez should declare his position on the issue.

(U) Journalists are portraying the drama as one of Senate reaction to "pressures from the U.S. Embassy." To their inquiries the Embassy issued a succinct reply: "he United States Embassy regularly carries out consultations with all parts of the Dominican government, including the House of Representatives and the Senate, on a wide range of matters of mutual interest. We share the interest of the Dominican government in obtaining an appropriate package of fiscal reforms, consistent with the international obligations of the Dominican Republic, in order to put the Dominican economy back on the road to recovery."

(C) On September 3 Technical Secretary of the Presidency Temistocles Montas opened a pre-Paris-Club meeting with Charge and EcoPol counselor with word that Senate President Bautista had raised the issue with the administration -- evidently with the suggestion that the tax package might go through unchanged if Fernandez asked for it. Montas took no position, as Charge again detailed the consequences of allowing the anti-fructose tax to become law, even with a perhaps a promise, perhaps unachievable, that it would be repealed. EcoPol counselor warned that congressional approval of the protectionist tax might prompt the USG to suspend action on the DR and proceed only with CAFTA.

#### The Losers, Strategy

(SBU) Sugar producers and pharmaceutical manufacturers see that they are the losers under the free trade agreement. Sugar cannot use the additional quota of 10,000 tons for the United States, because they can scarcely produce the 180,000 now authorized. The pharmaceutical producers know that effective enforcement of intellectual property laws will bar their plans to dominate the local market.

(C) Therefore the direct and immediate interest of both groups is to sabotage DR-CAFTA. Their first tactic was to shift perceptions, making the U.S. government, the U.S. ambassador, and the Embassy the villains of the piece. The intemperate rhetoric of their advertising sought to provoke a USG response, which would give them further material for polarizing opinion against the agreement. Leading sugar owner Pepe Fanjul, with production both in the Dominican Republic and in Florida, is putting about the story that the Embassy is revoking visas of supporters of the sugar sector -- a patent absurdity, but one that Dominicans, with their conspiracy theories of bilateral relations, would be eager to swallow.

(SBU) Their second tactic has been to poison Dominican law and regulations with trade-unfriendly measures that might prompt the United States openly to walk away from the deal. USTR could decide not to submit to the U.S. Congress only the trade agreement negotiated with the Central (CAFTA). If that happened, it would be the culmination of a process that may already have started -- with U.S. supporters in the private sector and in Congress estimating that Dominicans will never be able to deliver on their commitments.

(SBU) Against the fictions and malevolent ruses of these opponents, the most powerful potential force is Dominican self-interest. President Fernandez has not convincingly articulated the national interest in this trade deal and too few Dominicans have spoken up in defense of it. For example, the public appears to have no idea that it is paying double the world price for its principal staple, rice, or that cartels of protected producer-importers of agricultural goods are routinely gouging the public and especially the poor.

(SBU) The Dominican industrialists most capable of cashing in on new export opportunities contributed generously to the Leonel Fernandez presidential campaign. But they have done very little, either individually or collectively, to counter the tactics of the sugar lobby, a group everyone perceives to be motivated and wealthy enough to purchase congressional votes wholesale. Similarly, associations, civic leaders and economists who understand the advantages of the agreement have been intimidated by the ferocity of the agricultural counterattack. The American Chamber of Commerce leadership endorses the FTA in general terms but has not engaged in this fight, largely because sugar interests are influential members who regularly contribute to the Chamber and its programs.

(U) The struggle over the FTA will provide early tests for Leonel Fernandez: of his understanding of economic advantage in the modern world and of his ability to articulate a vision of the path to growth, transformation and modernization of the economy. And even more so, of his willingness to take on the privileged and protected, in the interests of those who

elected him.

12. (U) Drafted by Michael Meigs

13. (U) This cable and other cables in our various series on  
the Dominican Republic, along with extensive other material,  
can be consulted on our classified SIPRNET site  
<http://www.state.sgov.gov/p/wha/santodomingo/> .

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